

Message Text

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PAGE 01 BUENOS 05593 270116Z

60

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 PA-01 PRS-01 /083 W

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R 262007Z AUG 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 6859

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PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: FREE MARKET RATE FOR DOLLAR DROPS

1. FREE MARKET PESO/DOLLAR RATE, WHICH HAS BEEN AT STABLE 247 BUY, 252 SELL FOR THE LAST THREE MONTHS, DROPPED AUG 25 TO 238 BUY, 243 SELL. THE FALL WAS CAUSED BY THE DECISION OF THE STATE-OWNED BANCO DE LA NACION, WHICH HAS BEEN INTERVENING IN THE FINANCIAL MARKET TO MAINTAIN STABLE RATE, TO LOWER SUPPORT PRICE OF DOLLAR. MOST SOURCES DO NOT BELIEVE THE GOA WILL ALLOW THE FREE MARKET RATE TO FALL LOWER BECAUSE OF THE ADVERSE IMPACT ON EXPORTS.

2. BANK SOURCES ATTRIBUTE GOA DECISION TO INTERVENE AT LOWER FOREIGN EXCHANGE RATE TO A DESIRE TO REVERSE THE RECENT RISE IN THE PARALLEL RATE (REACHED 255 BUY, 261 SELL ON AUG 24). THE PRESSURE ON THE PARALLEL RATE WAS APPARENTLY CAUSED BY A SPECULATIVE OUTFLOW OF FUNDS RESULTING FROM RECENT REVERSALS IN THE STOCK MARKET (THE BUENOS AIRES STOCK MARKET AVERAGE ROSE OVER 600 PERCENT

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PAGE 02 BUENOS 05593 270116Z

IN THE MARCH-JULY PERIOD, WITH MANY STOCKS NOW QUOTED

AT UNREALISTICALLY HIGH LEVELS) AND FROM EXPECTATIONS THAT INFLATION WOULD BEGIN TO RISE IN COMING MONTHS, MAKING INTEREST PAYMENTS NEGATIVE FOR CERTAIN KINDS OF INVESTMENTS IN THE FINANCIAL MARKET.

3. THE CONSENSUS OF BANKING SOURCES IS THAT, IF THE GOA STOPPED INTERVENING IN THE FOREIGN EXCHANGE MARKET ALTOGETHER, THE PESO/DOLLAR RATE WOULD DROP TO THE 200-210 RANGE. THE GOA PURCHASES OF DOLLARS HAVE REPORTEDLY BEEN RUNNING AS HIGH AS \$10 MILLION A DAY -- AN AMOUNT WHICH IS ADDING CONSIDERABLY TO MONETARY EXPANSION AND BECOMING A POTENTIALLY INFLATIONARY FACTOR. THE PLANNED REDUCTION OF SWAPS FROM THE CURRENT \$1.2 BILLION LEVEL TO \$600 MILLION BY THE END OF THE YEAR IS EXPECTED TO HELP NEUTRALIZE SOME OF THE IMPACT OF CURRENT INFLOW OF FOREIGN FUNDS.
CHAPLIN

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Message Attributes

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Draft Date: 26 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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